

VZCZCXYZ0012
PP RUEHWEB

DE RUEHAK #0027/01 0071441
ZNY CCCCC ZZH
P 071441Z JAN 10
FM AMEMBASSY ANKARA
TO RUEHC/SECSTATE WASHDC PRIORITY 1628
INFO RUEHAH/AMEMBASSY ASHGABAT PRIORITY 1983
RUEHKB/AMEMBASSY BAKU PRIORITY 1651
RHEBAAA/DEPT OF ENERGY WASHINGTON DC PRIORITY

C O N F I D E N T I A L ANKARA 000027

SIPDIS

DEPARTMENT FOR S/EEE RICHARD MORNINGSTAR
DOE FOR OFFICE OF RUSSIAN AND EURASIAN AFFAIRS: LANA EKIMOFF

E.O. 12958: DECL: 01/07/2020
TAGS: [ENRG](#) [EPET](#) [ECON](#) [PREL](#) [TU](#)
SUBJECT: TURKEY MAKES PROGRESS ON TURKMEN GAS VIA IRAN,
WHILE AZERI NEGOTIATIONS REMAIN STALLED

Classified By: Dale Eppler for reasons 1.4 (b,d).

11. (C) SUMMARY: Energy Minister Yildiz attended the January 6 opening ceremony for the Turkmen-Iran natural gas pipeline and met with Turkmen President Berdimuhamidov, Iranian President Ahmadinejad, and the energy ministers from both countries. Yildiz said progress was made in bringing Turkmen gas to Turkey. An advisor who traveled with Yildiz said the discussions were "a good start," but much remains to be done, and several contacts have pointed to the need for major infrastructure investments in both Iran and Turkey to transmit any substantial new quantity of gas to Turkey. No progress has been made in gas negotiations with Azerbaijan. According to MFA and Energy Ministry contacts, there was no substantive discussion of gas during the December 25 visit of Azeri FM Mammadyarov to Ankara. Convinced that the Azeris, for non-commercial reasons, will not sign any agreement with Turkey at this time, the GOT is looking for an alternative, and the only Azeri bypass for Turkmen gas is through Iran. End summary.

Turkmen Gas and Iran

12. (C) In a December 25 phone call, Turkmen President Berdimuhamidov invited PM Erdogan to participate in the opening ceremony for the Turkmen-Iran natural gas pipeline. According to Berris Ekinici, head of the MFA Energy Department, Berdimuhamidov expressed openness to exporting gas to Turkey, but no concrete deals were discussed. Ekinici said Erdogan stressed the importance of the new pipeline not just for Iran but for Turkey and Europe, as well. According to press reports, Erdogan specifically noted the line's importance to Nabucco, and Berdimuhamidov also declared support for the project and any route that would favor Turkey.

13. (C) Energy Minister Yildiz represented the GOT at the January 6 pipeline opening ceremony. Yildiz met with Berdimuhamidov, Iranian President Ahmadinejad, and the energy ministers from both countries. In the press briefing following the trilateral meeting of Yildiz, Berdimuhamidov, and Ahmadinejad, Yildiz said progress was made in bringing Turkmen gas to Turkey and noted that the parties discussed supplying gas to the Nabucco pipeline as well as to Turkey's domestic market.

14. (C) Ibrahim Arinc, an advisor who traveled with Yildiz, said the outcome of the meetings was positive. He said Turkmenistan had revised its gas contract with Russia from 80 billion cubic meters (bcm) to 30 bcm, releasing a significant volume for export elsewhere. Arinc read this as a positive sign that Turkmenistan is ready and willing to diversify its exports. He said Turkey will pursue a deal with

Turkmenistan, as it pursues other sources in the region. Arinc said that although the intention and will exist between the parties, and the January 6 events were a good start, much remains to be done before any deal can be finalized.

14. (C) One major issue is the infrastructure improvements needed to move gas across Iran and through Turkey. OMV Turkey General Manager Oktay Sen noted that, as disclosed in recent press reports. BOTAS' infrastructure is inadequate to move a large volume of gas from the Iranian border to central or western Turkey. BOTAS will need to invest in new compressor stations and pipeline upgrades, especially in the Eastern Anatolia Transmission Line. Similarly, there are serious investment requirements in the Iranian Meshed-Gorgan-Ardabil-Tebriz line. Reha Muratoglu, head of the MENR Pipelines Department, said Turkey has an existing contract for 16 bcm of Turkmen gas, but the existing infrastructure cannot handle that scale of increase. Similarly, Emre Engur, head of the BOTAS Strategic Development and International Projects Department, told us significant infrastructure investment would be needed in both Iran and Turkey to import Turkmen gas through Iran. He also cautioned that discussions on importing Turkmen gas through Iran also may be another message to Azerbaijan that Turkey has alternatives in terms of both supply and transit routes, arguing that Azerbaijan has long impeded the flow of Turkmen gas through Azerbaijan because it would compete with Azeri gas.

Azerbaijan Talks Remain Stalled

14. (C) Despite press reports this week alleging that BOTAS is using figures of USD 230 to USD 399 per thousand cubic meter for Azeri gas supplies in its formulas to determine the price it will charge its domestic customers in 2010 (which would imply a deal on price and payment of arrears since the price negotiations began), Engur told us in some frustration that no price agreement has been reached yet with the Azeris, and that the press reports were "rampant speculation" about domestic gas prices. He noted that Turkey bought Azeri Shah Deniz phase I gas when demand was low at a price far higher than what the Russians were offering, and now the Azeris complain that Turkey got a sweetheart deal on price. The GOT is totally disappointed with how the Azeris have handled the negotiations. "We have a contract with a good price but, based on GOT policies, we agreed to revise the price. If they go to arbitration, they will lose."

15. (C) On December 25, Azeri FM Mammadyarov met with Turkish FM Davatoglu in Ankara. At a joint press statement, Mammadyarov said the two countries had a bright future ahead of them in regard to joint work on energy. Davatoglu said they had discussed Eurasian energy projects in the meeting and reaffirmed the countries' commitments to working together on these projects. MFA Energy Office Head Berris Ekinici told us nothing specific to Shah Deniz gas was negotiated at the ministerial level during the visit. She said MFA Deputy Undersecretary Hakki Akil spoke briefly with SOCAR representatives on December 25, but no significant breakthroughs were made regarding Shah Deniz gas. Ibrahim Arinc, advisor to Yildiz, also confirmed there has been no significant movement in the negotiations recently. He added that following the last meeting with the Azeris prior to Erdogan's visit to Washington, Yildiz said he was now convinced the reason underlying the Azeris reluctance to reach an agreement was not commercial. Similarly, Muratoglu said he has been involved in all the price negotiations with the Azeris and had not heard of any new developments following the foreign minister meeting.

Comment

16. (C) The GOT has long pursued an "all fronts" strategy in its search for natural gas supplies, negotiating with all available suppliers to meet its needs. While professing a

preference for Azeri gas, GOT interlocutors have long maintained that they can get by without it. None of the alternatives, however, are as certain or cheap as Azeri gas would be. Yildiz's Turkmen gas talks are thus a warning to Azerbaijan and a serious effort to get Turkmen gas. GOT officials are convinced that the Azeris would never consider allowing Turkmen gas to transit Azerbaijan until they reach an agreement on Shah Deniz gas and transit, and the only Azeri bypass for Turkmen gas is through Iran. End comment.
SILLIMAN

"Visit Ankara's Classified Web Site at <http://www.intelink.sgov.gov/wiki/Portal:Turkey>"